

MR. BARRETT: And I'll be quiet,
Chairman, in just a moment.

Mr. Wilkins, you had talked -- you had
made some remarks about set asides that I didn't
understand. You had -- there had been I guess
several debates this morning about set asides as a
function of increasing the probability of new
entrants. And I came in on the tail end. Are you
against, for them or just -- for what I prefer for
lack of a better word called fundamental fairness
in opening up the market, period.

MR. WILKINS: I'm for fundamental
fairness in opening up the market. I think that
there are limitations. Limitations are defined by
the capital requirement to get involved in the
process itself.

The capital defines whether or not the
service will be competitive, the capital -- your
ability to buy a 30 megahertz block and be
successful is a function of how much you pay for
it. If you pay too much you are not going to be
successful.

1 Of course if it were free, you could
2 probably end up with some kind of a competitive
3 service down the road. So it is the process and
4 the way it is set up that defines what is riskier
5 for an entrant coming into the marketplace.

6 And because the process itself can only
7 be got into if you are well-financed and have
8 adequate equity capital after you have gotten the
9 license, there are limitations on the openness of
10 the process itself that I think will drive away a
11 number of the people who would be instrumental in
12 providing some very unique and creative
13 applications and -- for the service.

14 MR. BARRETT: Thank you very much. And I
15 have talked too long. Thank you.

16 MR. GIPS: I actually wanted to come back
17 to a point Nancy raised and get people's opinion of
18 where the cliff is, how many competitors, how many
19 licenses can we issue before we hit that cliff of
20 too many.

21 MS. PERETSMAN: I guess I brought it up
22 so I'll start. I think as a start I should say I'm

1 still troubled by the definition of the
2 marketplace. But let's presume for a moment that
3 it is a wireless marketplace.

4 I think our view is that the maximum is
5 three. And there's probably markets at the right
6 number of two. Combined with the other
7 participants in the market who are -- I understand
8 they were covered at earlier session today so I
9 won't belabor the obvious, but you have already got
10 a handful of competitors going into this
11 marketplace day one.

12 MR. ROBERTS: I guess we disagree with
13 that. We think there is an opportunity here for a
14 lot more than three. You already have two which
15 are two incumbents cellular service providers. And
16 let me at this point interject something.

17 MS. PERETSMAN: I'm sorry. But are you
18 saying -- I said there are already a handful of two
19 to three additional ones.

20 MR. ROBERTS: Oh, you are saying two to
21 three additional ones. Okay. Yes. Under the
22 current license structure of a 120 megahertz then

1 we think what you are going to end up with is
2 probably three -- two to three additional
3 competitors, okay, just given the fact that you
4 have allocated 120 megahertz.

5 At this point let me also redefine the
6 market a little bit. Apparently there is a
7 mistaken notion that we have the view -- or at
8 least that I have the view that PCS is nothing more
9 than additional cellular service. I couldn't
10 disagree with that more. I think the opportunity
11 here for personal communications services is for an
12 enormous number of new wireless voice, video, and
13 data services probably not developed in that
14 order. Cellular is PCS, but PCS is not cellular.

15 The only reason that we emphasize the
16 spectrum blocks is because we don't see any reason
17 why the incumbent cellular service providers will
18 not and in fact they are planning to aggressively
19 introduce the same sorts of services and price
20 points that new PCS entrants would attempt to
21 offer.

22 And we believe that given the nature of

1 this industry and the high fixed cost structures
2 that they will attempt to preempt PCS. So that is
3 why we -- that is the main reason we have
4 emphasized the size of the spectrum blocks, not
5 that we think that PCS is to be, you know, just
6 more cellular.

7 MR. BARRETT: Anybody else want to
8 comment on that?

9 MR. RISSMAN: Sure. For a minute. You
10 can run through a little exercise in your head.
11 Take the number of subscribers you think there will
12 be at some end point, say 10 years from now. Give
13 the two cellular incumbents half that numbers
14 because they have such a big head start.

15 Let's say you want two extra licenses,
16 throw Nextel (phonetic) in there. That's three for
17 the remainder. Divide it up by 51 for 51 MTAs, see
18 how many customers you need for each one. You
19 know, anything below, say, 150 to 200,000 customers
20 in an MTA is probably not all that viable.

21 But of course the big ones will be
22 markedly different from the more sparsely populated

1 ones.

2 MR. GIPS: There is a question from the
3 audience that related to some of the discussion
4 this morning.

5 The ESMRs and MCI and Nextel (phonetic)
6 you just mentioned as an example have been able to
7 attract significant financing with 15 megahertz
8 essentially of spectrum.

9 Why have they been able to and why the
10 skepticism about PCS with less.

11 MS. PERETSMAN: I understood that remark
12 this morning. And I would like to point out in the
13 chronology if you look at Nextel's (phonetic)
14 history, the amount of capital just as an example
15 that Nextel (phonetic) is able to attract was
16 really deminimous until they attracted some
17 strategic investors.

18 So if you are talking about arm's length,
19 independent institutions such as Alliance making a
20 decision to put capital, it was a fraction of what
21 the market capitalization is today.

22 In fact you can tract where the capital

1 started to explode. Nextel (phonetic) went public
2 at 15. It's now down to nine. The point being
3 that when it was out there on its own it didn't
4 have a lot of support. Comcash (phonetic) shows up
5 and makes an investment and one of the great little
6 axioms that we referred to before is you know you
7 follow the money or there is another way of saying
8 it which is people look for comfort from other big
9 institutions.

10 So it wasn't until those big smart
11 corporate investors, quote, unquote, started
12 showing up that the independent equity capital
13 started traveling along. We can go through that
14 story time after time for virtually every one of
15 these companies.

16 MR. HOUSTON: I think in addition to that
17 comment I think the apparent footprint that Nextel
18 (phonetic) has, if you translate that into
19 geographical scope, getting back to what is on the
20 agenda, you'll probably get a feel as to why. So I
21 think there is a direction correlation between
22 those two.

1 MR. OXENDINE: It almost seems as if the
2 other side of the room is like the soldiers of
3 fortune. And it is real interesting to me. It
4 implies that some people haven't read the budget
5 act very well which I thought legislated some of
6 these things and suggested that A there be
7 significant entities and there could be some
8 precedence set.

9 But if -- that hasn't been the case where
10 what people don't understand that. I think the
11 only way we are going to ever motivate people like
12 that to do anything is for you as regulators to do
13 something. Because they will not do a thing unless
14 they are motivated.

15 I mean, this is very apparent right
16 here. You tell me where to put my money, and
17 that's where I will put it. Otherwise I'm going to
18 see what I can make and leave. It is a sad
19 commentary but that is just the way the money
20 markets work.

21 And so it is incumbent upon the
22 regulators to do something because the financiers

1 won't do a damn thing. And I know that from having
2 been a financier for a lot of years.

3 MR. HOUSTON: I think I want to make a
4 comment in going back to what Herb said earlier
5 that after having the license and going out and
6 getting the equity to actually pursue a viable
7 business.

8 And now commenting on the most recent
9 comment in terms of what the -- I think the comment
10 that I made earlier about that prequalification for
11 the licensing, if someone brings to you prior to
12 participating in the business -- in the bidding
13 process, a whole plan that shows the capitalization
14 potential for their business undertaking and you
15 get -- that will do more I think for the designated
16 entities than anything else.

17 Because what happens is in order to be
18 able to put together the capital structure that
19 they will bring to you they, will have to have gone
20 to the marketplace with a core set of competencies
21 that they have put together and convinced others,
22 someone else, that they have a good business

1 proposition.

2 And included in that will be the
3 technical competencies that will be required to
4 make it successful, the managerial competence and
5 all that sort of -- and by having that as a
6 prerequisite requirement could be doing a lot of
7 good for new entrants not just the designated
8 entities but any new entrant that doesn't have the
9 benefit of the deep pocket as has been referred to.

10 MR. PEPPER: Can I ask Mr. Houston a
11 slightly different question? In your opening
12 statement you said that you viewed -- you thought
13 that the financing strictly would come through
14 equity and not through debt.

15 And yet in the cellular business a lot of
16 the manufacturers provided debt financing through
17 providing equipment. I was just curious given your
18 experience on the cellular side why this is
19 different.

20 MR. HOUSTON: And when I referred to debt
21 I was talking about debt in the traditional capital
22 market environment. If you -- and unfortunately a

1 lot of the manufacturers, equipment manufacturers,
2 should have provided -- used equity instead when
3 they supplied the equipment. Should have
4 classified it as equity instead of debt.

5 I think they would be a lot better off as
6 a result. So it is question as to whether or
7 not -- what the classification of the capital
8 that -- how they classify what they provide to the
9 industry.

10 And I think the PCS market will attract
11 its fair share of supplier credit. However I want
12 to caution one thing that the market is different
13 than the perceived risk looking forward than what
14 you had in the cellular industry. It's going to be
15 different.

16 I think it goes back to Nancy's point in
17 terms of the final -- what really is the market
18 because at one point 10, 12 years ago when AT&T
19 provided supplier credit for over \$200 million to
20 McCaw (phonetic) there wasn't a cellular industry.
21 Today -- a wireless industry.

22 So now I think when you look forward you

1 are putting the things in a different prospective.
2 And I think the reaction and the perception is
3 going to be different.

4 UNIDENTIFIED SPEAKER: Excuse me. Are
5 you suggesting that the equipment manufactures will
6 not be as quick to jump into this market?

7 MR. OXENDINE: Or will they take equity
8 instead of notes.

9 MR. HOUSTON: I think it's open to
10 debate. I'm not sure because I think the
11 marketplace is different than it was ten years
12 ago. But I don't think it should be precluded.

13 I think it is open for debate.

14 MR. PEPPER: If we could have maybe Paul,
15 Nancy or Mark respond to John's question, what
16 could be done from our prospective to make
17 investments more attractive in the designated
18 entities small business, firms owned by women and
19 minorities?

20 Mark talked about -- actually it sounded
21 like fairly aggressively pursuing those kinds of
22 joint ventures. And I guess what else can we do to

1 make those investments more attractive.

2 MR. RISSMAN: One thing you can do is to
3 keep the cost of entry as low as possible.

4 MR. PEPPER: And how do we do that.

5 MR. RISSMAN: You could give them the
6 spectrum for free. I'm not kidding.

7 MR. PEPPER: What about in terms of the
8 cost of entry on the spectrum side? Others have
9 come in and said that the cost of spectrum even at
10 market price is only a fraction of the cost of
11 building out the infrastructure.

12 What would you think should be done in
13 terms of ever geographic or spectrum block size?

14 MR. RISSMAN: Well, any -- you know
15 somebody can think of a niche application like
16 fixed wireless for example. And if it is a smart
17 idea and in they have a good business plan, and if
18 the managers are well-experienced, that is
19 financeable.

20 We are not talking about the huge amounts
21 of financing that somebody with a MTA of 30
22 megahertz MTA is going to require or want.

1 But for example, the narrow band PCS guys
2 will probably get a lot of licensing because they
3 will be able to -- a lot of financing because they
4 will be able to think of good niche applications.

5 Any small business that thinks of a good
6 niche application will have Will have access to a
7 limited amount of financing on a small scale.

8 MR. PEPPER: Have you heard of any good
9 niche applications in broad band PCS versus narrow
10 band PCS? I guess Mr. Wilkins suggested up to 1500
11 licenses which would make it very local and
12 relatively small blocks of spectrum.

13 That to me sounds like it is right for
14 niche services. Other people told us there is no
15 such thing as a niche service in PCS because if you
16 have 30 megahertz or if your cellular was with 25
17 plus maybe some more spectrum you can provide not
18 only the highly mobile service but also the niche
19 service. So There is no such thing as niche in
20 this area. Is that --

21 MR. RISSMAN: I tend to agree with Mark
22 and that point of view that in the end everyone

1 will be able to provide all services and that
2 therefore the niche will go away.

3 But if somebody can think of a good niche
4 I would be dying to hear about it.

5 MR. PEPPER: Mr. Wilkins, you might want
6 to respond to that since your opening statement
7 seemed to indicate that niche services were really
8 sort of critical to developing opportunities for
9 small businesses.

10 MR. WILKINS: I think they are. And I
11 think that the large companies -- they will them
12 probably ultimately get there but I think there is
13 always the head start possibility for somebody who
14 comes up with the unique idea.

15 And I think that the smaller licensing
16 areas offers an opportunity to want to service in
17 an area on a trial basis at least where the risk is
18 somewhat mitigated by the smaller size and the
19 area.

20 The larger the license you have to pay
21 for the less likely it is that the entrepreneur
22 will take risks and the people providing the

1 financing will allow the entrepreneur to take risks
2 with their license.

3 What most people will want if they put up
4 money is to have the entrepreneur rush to some
5 level of cash flow development in his business.
6 And they won't really look at the licensing, or the
7 intellectual business licensing opportunity to go
8 out and define service.

9 I don't think anyone will bid on a
10 spectrum unless they have some idea of what they
11 intend to do with it. But there will be new
12 services that are never tried before and to have
13 to -- to role that out over a full MTA for instance
14 might be impossible.

15 A new service over an MTA I think would
16 be very tough for anybody to finance.

17 MR. PEPPER: What about the amount of
18 spectrum? Some people said that actually the more
19 spectrum you get the lower the costs of entry
20 because of the incumbent microwave problem as
21 opposed to the geographic scope.

22 MR. WILKINS: I think that is true, but I

1 think that anybody who bids on a 30 megahertz block
2 really isn't worried about the cost associated with
3 removing microwave services.

4 On the other side, the smaller guy is.
5 And maybe by making the licensing smaller you might
6 allow somebody to go around the microwave problem.
7 Maybe you can break up an area and smaller areas
8 would have fewer microwave problems. I don't
9 know. Someone would have to have an engineer take
10 a look at that.

11 But I would think that you would have
12 opportunities to have fewer problems in certain
13 blocks of spectrum if the license areas were
14 smaller.

15 And hence I think you would get those
16 service developed, the new services developed in 10
17 megahertz blocks.

18 MR. PEPPER: Mark, you have been talking
19 to entrepreneurs with I assume a range of
20 services. Does that sound like a winner or a
21 non-starter? I mean, which -- or something in
22 between and why.

1 MR. ROBERTS: We are sort of operating
2 from the premiss that ultimately these networks are
3 going to converge both wired and wireless
4 networks. And network investments have tended to
5 fall into commodity returns. So operating a
6 network be it wired or wireless ought to be a
7 commodity business. And there is a whole set of
8 reasons why you can say that cellular has not been
9 that.

10 For an entrepreneur or a small designated
11 entity, they have a difficult time developing a
12 business plan where they can compete against the
13 entrenched service providers in a commodity
14 business.

15 So first of all, raising money for them
16 to bid for spectrum will probably be difficult.
17 But once they have the spectrum, particularly if
18 you were to encourage by the regulations designated
19 entities to partner with one of the large commodity
20 network providers and force them to take equity and
21 retain those licenses or -- you know for a
22 significant period of time you offer the

1 opportunity for the designated entity to work with
2 this big joint venture partner which you have heard
3 mentioned by both Paul, and Nancy, and I earlier in
4 other context.

5 The reason we mentioned that is because
6 of this sort of commodity return concept that the
7 big players are better at doing that. So that is
8 one way of doing it.

9 Beyond that we think there is a
10 particular opportunity for small businesses and
11 designated entities to offer a variety of
12 vertically integrated value added PCS services and
13 technologies without necessarily having to have
14 them be PCS licensees.

15 MR. PEPPER: Mr. Oxendine, how does that
16 strike you.

17 MR. OXENDINE: I think that -- I mean, we
18 have all talked about generic truths. You asked
19 about geographic scope of license. I think it is
20 real clear that the bigger the service area the
21 more it costs to get involved and less likely small
22 players can survive.

1 That is a basic truth. And as it stands
2 right now the way we are set up, the two and the
3 five, I think the only way that the small
4 players -- and I agree with you here that the small
5 players will be able to get into niche marketing
6 for example doing some mobile -- extended mobile
7 phone service and they can develop an expertise in
8 that hopefully. And some strategic alliances that
9 you kind of suggested.

10 I mean, if I were moving forward as we
11 are presently set up, I think it is disastrous to
12 go for the 30s if you were me. And it makes a lot
13 of sense to go for the small ones, the 20s and
14 10s. But I would only finance them if there was a
15 specific niche that you had and a strategic
16 alliance. Short of that I wouldn't do it.

17 MR. PEPPER: You earlier in your opening
18 statements talked about attribution questions of
19 how we define small business, minority, female
20 participation.

21 MR. OXENDINE: I would have -- it is not
22 my world unfortunately. I would have had three 20s

1 which would have caused some attribution in terms
2 of getting to 40 or 30. It would have caused some
3 strategic alliances. It would have caused some
4 joint ventures.

5 But in the imperfect world that we live
6 in and we'll probably have the 30s. And it makes a
7 lot of sense for a lot of reasons. But at the same
8 time think we need to accommodate the 20s and the
9 10s.

10 And the way again I said we would have to
11 look at it is to look at some niche marketing that
12 Herb talked about and we got some specifics for,
13 and a look at some strategic alliances that are
14 almost forced in a way.

15 And the idea about giving away free --
16 nothing is free, but if there some designated
17 entities, not to talk about minorities or racial
18 folks, but if there were some designated entities
19 who had free because we only had to put up 85
20 grand, we could raise a hundred thousand dollars
21 instead of \$3.2 million.

22 And I think that could motivate some of

1 your people to come and play with us. So that
2 makes some sense. I think there are some ideas if
3 we sit down here and put our head together if could
4 be a win-win circumstance.

5 I think the amount of spectrum is
6 sufficient. I think if we figure out how we can
7 put together these alliances and joint ventures and
8 make some sense. But we have not done that yet.
9 We have not had that as a goal. And I think that
10 perhaps you need to mandate it as a goal and we
11 will come up with some answers other than just
12 being anecdotal about it.

13 MR. HOUSTON: Just a quick comment. That
14 is, I think one of the things you could do for the
15 designated entities more than anything else is to
16 at this moment to not preclude any particular
17 business option that they could be dealing with
18 too.

19 Any type of alliance or strategic
20 business arrangement that they can forge should be
21 entertained in future discussions because I think
22 the market is so new that you really can't start

1 putting parameters about one should be able to do
2 or should not be able to do.

3 I think that is one of the things I think
4 that you should be -- leave open, that would be
5 very helpful. And the other comment is that this
6 is not an AT&T network systems. But I don't know
7 where the money that the FCC is going to collect
8 from the license and how it will be used.

9 And maybe one of the things you want to
10 consider is how you participate in accomplishing
11 the social objective because I really think it is a
12 social policy objective on the designated entities
13 and how you accomplish that objective by usage of
14 some of the license fees collected.

15 MR. PEPPER: Actually Congress has
16 determined where the money is going to go, and they
17 have already spent it. Somebody earlier started
18 talking about the deficit, and I think it is going
19 go in part to retire that.

20 MR. RISSMAN: Just one thing quickly
21 about strategic partnerships. I think it is a
22 great idea in principal but I can just see somebody

1 with a 10 megahertz BTA approaching MCI who wants
2 10 megahertz BTA so they can provide fixed wireless
3 and saying want to be my partner. And MCI starts
4 to salivate and says yes we will be your partner,
5 and that is the last you ever see of the guy.

6 A designated entity that does not have
7 the network expertise is going to have to give up
8 control of the network, who does not have the
9 marketing expertise is going to have to give up
10 control over the market.

11 Somebody with one good idea will easily
12 be swallowed up and absorbed by a larger partner.
13 That would in essence defeat the whole point of
14 giving a set aside in the first place. You've got
15 to be very careful to watch out for that.

16 MR. OXENDINE: See, I totally agree with
17 you, but I think that the FCC has looked at the
18 ownership interest and not looked at the control
19 circumstance as might be the case with us
20 broadcasters.

21 If we looked at the ownership -- and I
22 don't care if you have 90 percent of it. If I can

1 control it, that's fine. And we have the play.
2 And you wouldn't swallow me up in an instance. I
3 mean, we are all intelligent enough to know about
4 limited partnerships and how they work and how --
5 the fact that you can have a general partner
6 corporation where I can have a, you know,
7 controlling interest of that general partner and
8 raise an awful lot of money. And Herb does it
9 every day.

10 So I would suggest just policy wise that
11 the FCC take a look at ownership, control,
12 precedence being broadcasters and perhaps implement
13 it here because it could be very helpful in the
14 circumstance that you are talking about.

15 MR. WILKINS: I really don't think that
16 the partner in the joint venture relationships will
17 work. It was true when cable first rolled out and
18 when telephone companies offered to bill cable
19 systems. And there were probably maybe two or
20 three cable operators in the country even though
21 they were desperately in need of money who took the
22 telephone companies' offers to build on a lease